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Incentive Marketing

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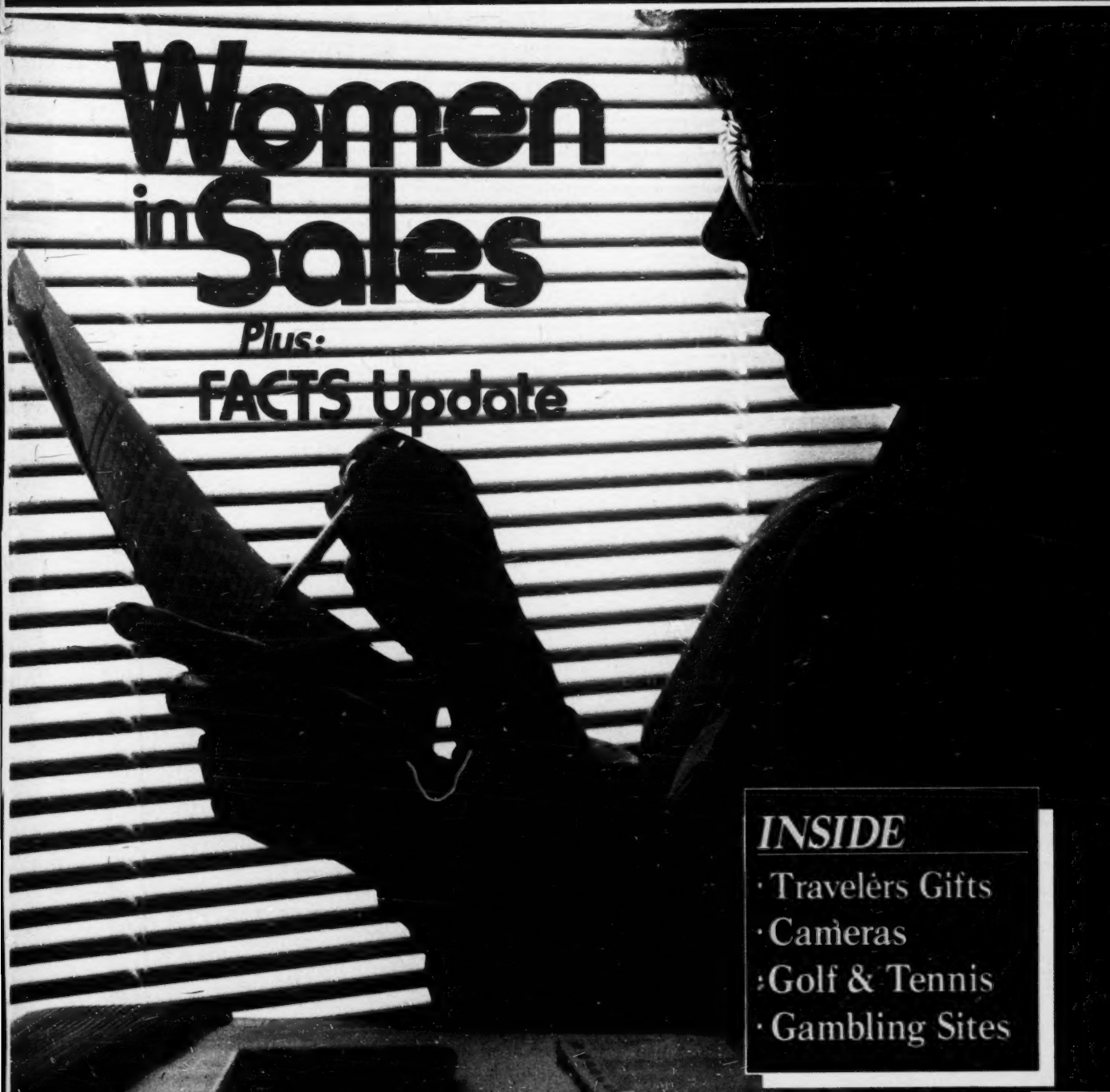
INCORPORATING INCENTIVE TRAVEL



Women in Sales

Plus:

FACTS Update

INSIDE

- Travelers Gifts
- Cameras
- Golf & Tennis
- Gambling Sites

PRODUCT FOCUS: Cameras, p. 42

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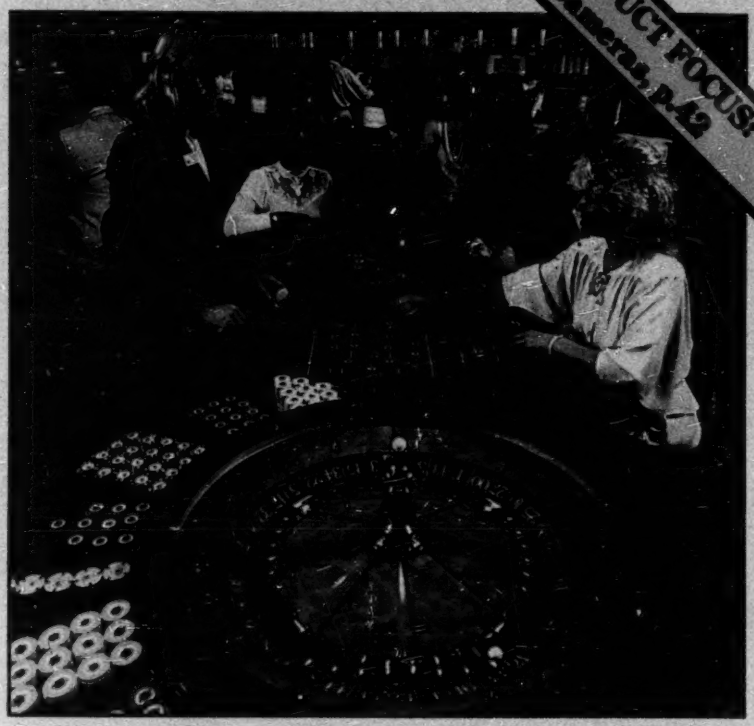

Spotlight on gambling destinations. See page 60.

NEWS

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- Spurred by increasingly tough market share battles and the terrorism-induced travel slump in Europe, the travel industry has unleashed a wave of new promotions to lure customers.
- Consumer and trade winners join millions of tourists in New York this month for the Statue of Liberty celebration.
- The new tax bill may have significant effect on employee service, safety and productivity awards.
- S&H and Top Value consolidate incentive operations.
- **FACTS Update.** Sales incentive spending keeps pace with last year, with budgets up over 9 percent.

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While the rising yen forces buyers to carefully assess camera costs for long-term campaigns, an increased variety of product options is welcomed.

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SALES INCENTIVES

Spending is keeping pace with last year, with sales incentive budgets up more than 9 percent on average.

FACTS Update

Sales incentives kept the trophy in 1985 as the most-used and fastest-growing type of incentive, and early readings indicate that they are running at just about the same pace this year.

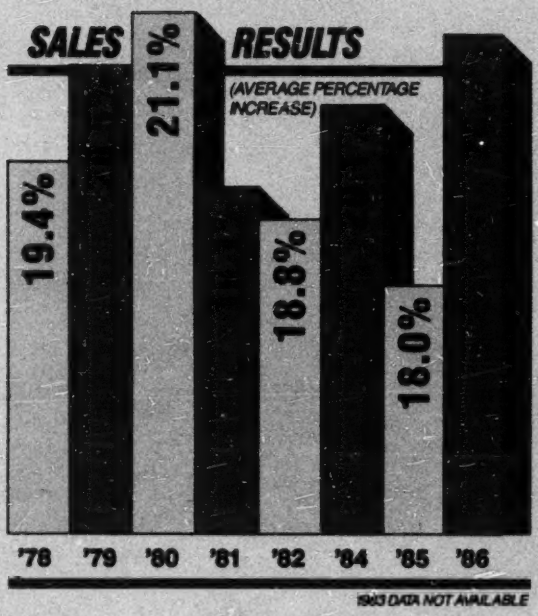
The 1985 growth of sales-force motivation, estimated at 9.4 percent, did not challenge the previous year's booming expansion of almost 20 percent. But it was still much stronger real growth than had been seen for some years prior to 1984.

An **Incentive Marketing** survey of sales incentive users just completed finds these companies upping their budgets by an average of 9.1 percent over 1985 spending. This survey reports the experience of 265 users of sales incentives, representing a cross section of industries covered in IM's annual FACTS estimates of expenditure.

Marketers are using sales incentives because they work—producing more sales this year than any time since 1980. But companies are paying a price too: Participation is level, incentive unit costs are up somewhat, and it takes a bigger slice of the incremental business to pay the bill this year.

A jump in the average sales increase to 20.9 percent makes it possible to forgive some rise in the cost.

This average compares directly with the same companies' average of 18.8 percent last year, quite close to the 18 percent derived from a different survey group a year ago. This year's median, reflecting the middle-range typical result, is equally impressive—up to 18 percent from 15 percent last year.



Estimated expenditures for sales incentives passed the $3 billion mark in 1985, reaching a total of $3.26 billion. The advance of 9.4 percent over the 1984 outlay compared favorably with 7.9 percent growth for the overall incentive field. Travel ran a little faster than merchandise, increasing by 10.1 percent while merchandise was up 9.2 percent.

Four industries, all among the top 10 sales incentive users, led the field in increased usage last year: Building materials was up 11.7 percent; machinery and supplies, 11.2 percent; publishers, printers and broadcasters, 10.8 percent, and electronics, radio and television, 10.6 percent. The miscellaneous industries group also outpaced the average, with a 10.7 percent growth rate, and wholesalers and distributors topped their previous year's expenditures by 12.6 percent.

The top user by far, insurance, added the average 9.4 percent to its sales incentive budget, translating to almost $30 million in new spending.

In most cases, the targeted salespeople are a company's own employees, favored by 70 percent of the executives reporting in the latest IM survey. About 28 percent aim their motivation efforts at independent manufacturers' representatives; 21 percent, wholesaler people; 17 percent, retailers' personnel, and 3 percent, direct selling people. The total is above 100 percent,

Building materials, machinery and supplies, publishers, printers and broadcasters, and electronics, radio and TV lead in increased usage.

because the average business conducts campaigns for about one and one-half different types of salespeople.

How do users evaluate their sales incentive programs? The most popular measurement is in total units or dollars sold, stated by 60 percent. Second in favor is the percentage of salespeople reaching their goal or quotas, chosen by 37 percent; increased market share is a touchstone of 23 percent, while 20 percent count the profit on incremental sales in their evaluation. Branch or district performance is used by 6 percent who structure their programs on a district-office basis. About one and one-half of these measurements are applied by the average reporting firm, indicating a desire to avoid rigid judgments based on one factor alone.

Even with a variety of yardsticks, absolute measurement often is impossible. "Would sales have increased without the incentives?" asks a life insurance executive. A West Coast electronics executive complains that he is "not given all financial facts from top management so therefore cannot evaluate incremental business."

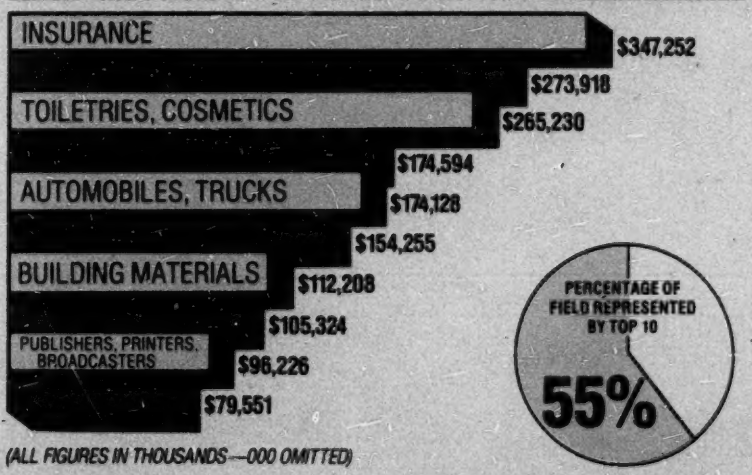
A New England manufacturer says, "Evaluation of programs has always been a thorn in our side where planning has not included it." And the importance of planning, particularly regarding objectives, is underscored by Thomas Chavez, advertising manager of the Stoody Company, City of Industry, Calif. The machine manufacturer points to the importance of getting management to accept "the idea that an incentive program cannot be all things to everyone. No one program is going to fit everyone's needs. If that were true, every company would be doing the same program."

The percentage of eligible salespeople qualifying for awards, which ranks second among evaluation measurements, has been somewhat depressed since 1981, when it reached a high of 54 percent. After dipping as low as 39 percent, it rose to 44 percent in 1984 but has since settled back to just 40 percent.

Broken down by award type, it represents 47 percent earning merchandise this year and 31 percent qualifying for trips. The all-or-nothing aspect of many travel programs has always worked to keep qualification low, but the percentage winning merchandise prizes also has slipped in recent years.

The lower level of qualification might be the result of a trend toward tougher quotas, but it is clearly not caused by more stringent application of quotas. Two years ago, salespeople earned the minimum award at an average of 93 percent of quota and had to make 133 percent to qualify fully. The median in each case, however, was 100 percent. Last year, the medians for both levels were also 100, but the average numbers were

TOP SALES INCENTIVE USERS (1985)



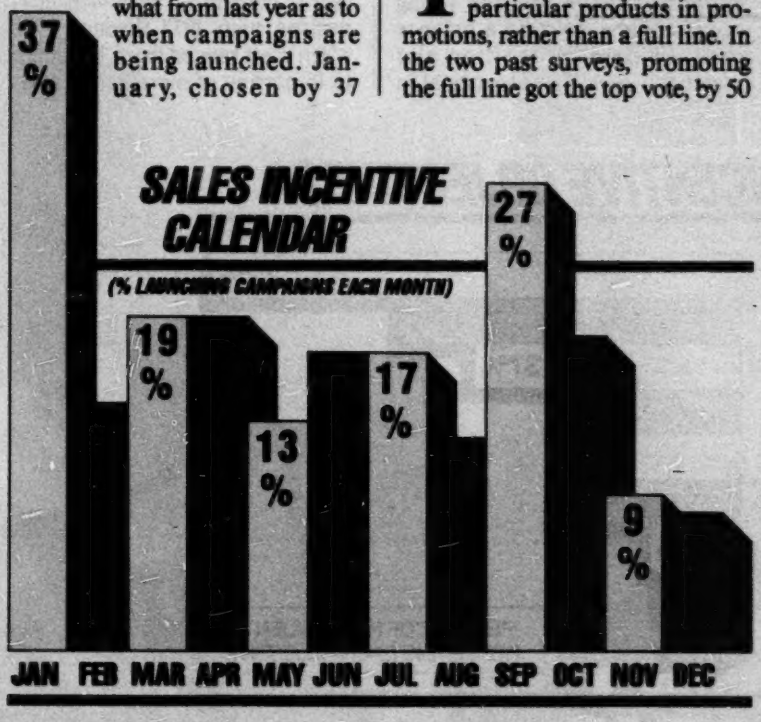
(ALL FIGURES IN THOUSANDS—000 OMITTED)

down—to 84 percent for the minimum award and 99 percent for the maximum.

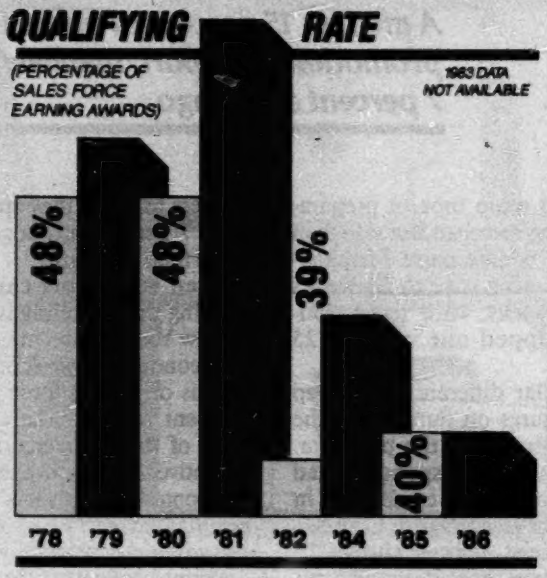
In this year's survey, the downward trend has continued. To make the first award level, an average salesperson need reach only 74 percent of the assigned quota and arrives at the top with only 89 percent. The median in the maximum range is still 100, but the low-level median has dropped to 80.

There are two principal means of setting quotas: 44 percent of respondents look back and set quotas on the basis of year-ago sales performance, and 45 percent, looking ahead, translate their sales forecasts into quotas. A third group, 11 percent, looks back just a little way, basing goals on the immediate previous period's sales.

Executives reporting in this year's survey are a bit more active in sales incentives than those in the previous study. The median number of merchandise programs they conduct is three, compared with two a year ago. In both surveys, the median number of travel campaigns remains at one.



Marketers vary somewhat from last year as to when campaigns are being launched. January, chosen by 37 percent, has jumped way ahead of September, selected by 27 percent. Following are March and April, 19 percent each; October, 18 percent, and June and July, 17 percent each.



This year's respondents also are more inclined to target particular products in promotions, rather than a full line. In the two past surveys, promoting the full line got the top vote, by 50 percent and 45 percent; this year that has dropped to 40 percent. Pushing selected items has risen in favor over three years from 39 percent to 43 percent to 44 percent. Those promoting single products remain a small minority at 16 percent this year.

Specific objectives have not changed greatly since the 1985 survey. The top choice, increasing overall volume, dropped from 73 percent to 72 percent, and the second goal of introducing a new product fell one point to 46 percent. The third-ranking objective, improving morale or good will, picked up two points to reach 37 percent. The total far exceeds 100 percent because of multiple mentions; in fact, these executives listed an average of slightly more than two and one-half objectives.

Setting objectives, of course, is only one step in the planning process. Most surveys have indicated that a travel promotion takes considerably longer to plan than a campaign with merchandise. In the present study, however, most of the difference has been erased. While these executives devote almost the same amount of time to travel planning as the similar group a year ago, they are spend-

A median 15 percent of budget is going for promotional support, marketers say, up from just 7 percent a year ago.

ing much more time in preparation on the merchandise side than their 1985 counterparts. Merchandise planning rose to 24 weeks from 15 weeks, while travel planning dropped one week to 25 weeks.

A similar difference shows up in the figures on duration of the selling period for the program. Where last year's respondents had their merchandise campaigns in the field for an average of 15 weeks, the current survey shows 26 weeks. Travel promotions also ran 26 weeks, somewhat shorter than last year's 29 weeks.

Sprint campaigns are longer this year—an average of seven weeks versus four weeks.

The longer campaign period may account for users spending a larger percentage of total budgets for promotional support. A median 15 percent of budget goes for this backup, while 85 percent is spent on awards. A year ago, surveyed readers told IM they spent a median 7 percent of budget to promote their programs.

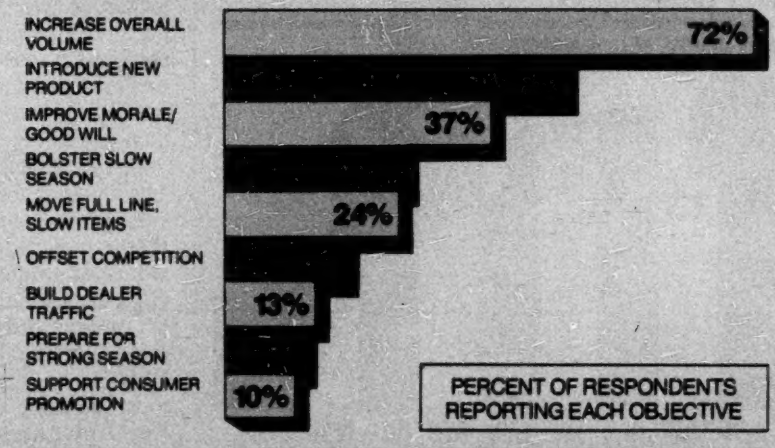
Even with short campaigns, keeping things rolling is not easy. A New York apparel manufacturer who conducts 12-week promotions for his own sales force and independent reps bemoans the difficulty of "trying to maintain total incentive throughout the period of the contest." He resorts to a long-familiar device: "We have begun to use wives as a pusher for men who are rather slow or lazy to respond."

It takes about 10 percent of the Criterion Insurance Company's total budget to provide promotional backing for the firm's 12- to 16-week campaigns, says sales promotion director Anthony R. Mancari Jr. For the Washington company, "the greatest problem frequently encountered is the difficulty of motivating both the old established agent and the young hungry agent. Striking a balance between peer recognition and merchandise or travel is critical in making our programs successful."

John J. Keenan, president of the Harleysville (Pa.) Life Insurance Company, runs six-week merchandise promotions, while his travel offerings are 52-week affairs, principally for independent agents. One problem, he reports, is a "lack of cooperation or sense of urgency on the part of some potential qualifiers. They pay little or no attention to promotions and information bulletins, qualification requirements, etc. until the last minute."

The increase in promotional budgets may be one factor contributing to a rather large increase in the bottom-line cost of the average sales incentive campaign, as a percentage of incremental sales generated by the promotion. The 11 percent average comes after a couple of years when costs where unusually low—8 percent in 1985 and 9 percent in 1984—in comparison with 1977 through 1982, when costs ranged from 12 percent to 16 percent of incremental sales.

SALES INCENTIVE OBJECTIVES



A jump in the average sales increase—from last year's 18 percent to this year's 20.9 percent—makes it possible to forgive some rise in cost.

The median cost moves up more abruptly, to 10 percent from 5 percent.

Higher unit award cost is another likely cause of the increase in total cost. The rise is in merchandise, which has the larger total volume. This year's average merchandise award costs a user $309. That is actually $6 below the average a year ago—but the averages are distorted by a few large numbers. The key is in the median, and that has risen 25 percent from $100 last year to $125 now. Median travel costs held steady at $1,500 per winner; the average per winner is $1,547.

What the money buys and from what type of source are questions every user has to answer in terms of the unique needs of his program. Here is how the answers line up in this year's survey:

Types of Award

38% Single premium or group of related items
38% Merchandise selection from incentive house
36% Individual travel awards
25% Group travel award
22% Own merchandise catalogue or selection

Merchandise Suppliers

38% Wholesaler or premium jobber
36% Direct from manufacturer
26% Manufacturers' representative
23% Incentive house

Travel Suppliers

37% Make own arrangements
21% Incentive house
14% Travel wholesaler
11% Travel carrier or hotel

The sharp division that once existed between merchandise and travel incentives is disappearing as more travel users embrace the concept of combining merchandise awards with their trips to broaden participation and as more merchandise users are converted to some travel usage. In this year's survey, 67 percent report use of merchandise programs, only 10 percent indicate travel-only usage, and 23 percent combine merchandise and travel in their promotions.

With travel or with merchandise, the healthy performance of incentives conducted this year says a lot for the motivation technique—and probably says some things for the economy as well.

Salespeople earn the minimum award at only 74 percent of quota and qualify fully at 89 percent.

Despite the indication of higher-than-anticipated costs, the survey shows that results were higher than expected. In answer to a question as to what sales result they "usually set as a sales incentive goal," the average response was 18.5 percent (median 15), very close to both these users' reports of their 1985 results and the response of last year's users.

On the difference between 18.5 percent, the goal, and 20.9 percent, the reality, any sales executive could be expected to wager a little extra budget money. And their report of a continuing rise in sales incentive spending—by more than 9 percent this year—shows they're willing. ■

THE AVERAGE COST